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Privacy and the Dot-com Bubble

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Personalization and online profiling don't work. Twelve months ago, the founder and CEO of Amazon.com, Jeff Bezos, was named Time magazine's Person of the Year. Meanwhile, the Nasdaq was rocketing to 5,000, minting new paper billionaires on a daily basis, while dot-com companies were building the "New Economy."

What a difference a year makes. The Nasdaq is now scraping 2,500, while failed dot coms such as Pets.com, Living.com, and Furniture.com are featured on "dead pool" websites. Wall Street analysts are even wondering out loud if Amazon.com can survive.

How could things go so wrong so quickly? It was a classic example of a speculative financial bubble. And having spent the last two years researching Internet privacy, it seemed clear to me early on that privacy issues were part of the dot-com bubble.

One way that dot coms sold themselves to investors was by claiming a unique ability to snoop on customers as they surf websites. This snooping ability would generate real money because the site would know each consumer much better, and sell them more stuff. That was the theory anyway.

At e-commerce websites, snooping goes by the name of "personalization." This means that your view of a website will change based on what you have done there previously. For example, Amazon.com may show you a new title on dogs if you have previously purchased a dog book or video. Meanwhile, your neighbor's Amazon.com homepage may offer a discount on a car-buying book because the neighbor searches frequently for car books. That's personalization, which is marketed as a great consumer benefit because it gives people what they want.

But personalization is much easier to promise than deliver. It's easy to collect mountains of clickstream data about people who come to a website. What's hard is to turn that data into accurate predictions about what products and services consumers will buy.

A recent story in PC Magazine questioned whether personalization is even worth the investment. It also referenced a Forrester Research survey of 50 e-commerce websites that found a whopping 84 percent don't even measure the success of their personalization programs!

An even bigger question mark haunts the business of "online profiling." This is the technique used by online banner ad companies such as DoubleClick, Engage, and 24/7 Media. Their technologies watch what sites you visit or what terms you type into search engines. Your online profile, correlated to cookies placed on your computer, dictates many of the banner ads you will see subsequently when on the Internet.

As with personalization methods, the theory behind online profiling is that you are more likely to click on ads for products or services that you have previously expressed some interest in. The reality is that many people are uncomfortable with the idea that they are being stalked as they surf.

Online profiling become particularly controversial in the past year after news broke of DoubleClick's plan - since shelved - to match online profiles with the real-world identities of individuals gained through DoubleClick's acquisition of Abacus Direct, a direct marketing database company.

Setting aside the privacy issues, a key business question is whether online profiling actually works? The amazing answer is: No!

First off, advertisers don't know how to use all the information that an online profile provides. "Most (ad buyers) are not set up in their marketing departments to utilize the targeting that is available," Rich LeFurgy, chairman of the Internet Advertising Bureau, told the San Francisco Chronicle in July. He was even more blunt in a Washington Post article in August: "The truth is, targeting is not ready for prime time."

LeFurgy should know because he is also on the board of directors of AllAdvantage, the pay-to-surf company and one of the industry's biggest promoters of profiling.

The media always asks me this question: who is actually hurt by all the snooping done by companies on the Internet? I now give them an answer they don't quite expect: the companies themselves. Spying in the form of personalization and online profiling costs lots of time and money. These resources would be better spent figuring out the products and services that people want to buy, and then delivering these products at a reasonable cost while making a profit. Too many dot coms were snooping on their customers when they should have been minding the store. —12/27/00